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SUBJECT: AVIATION UPDATE: JAZEERA READY TO LAUNCH AND KUWAIT AIRWAYS MOVES TOWARDS PRIVATIZATION

REF: KUWAIT 00324

1. (U) SUMMARY: Econoff met with the CEO and Chairman of Jazeera Airways Mr. Marwan Boodai on April 30, 2005, to discuss the new proposed launch date of Kuwait's first privately owned airline. On May 1 Kuwait Airways (KA) announced that the draft bill transforming KA into a commercial body is expected to be approved, taking KA one step closer to privatization. END SUMMARY.

Jazeera Airways Schedules October Launch Date

2. (U) During an April 30 meeting with Mr. Marwan Boodai, CEO and Chairman of Jazeera Airways (JA), and Mr. Suhail Homs, Director of JA, Econoff learned that the privately owned airline is expected to start flying in October 2005. Ticket sales to the initial destinations of Dubai, Bahrain, Jordan, Syria, Lebanon and Egypt will begin on August 29.

3. (U) Originally scheduled to begin service in February 2005 (Ref A), Boodai explained that the delay was caused by the company's decision to purchase its own aircraft rather than lease the planes. The decision to buy rather than lease, he continued, was based on two factors: the unexpected amount of investment capital available to the company and the desire to offer a better product to the customer. JA is traded on the Kuwait Stock Exchange and has over 3,600 investors. Boodai said, therefore, that the company has enough start-up capital to justify the more expensive option of purchasing the aircraft. Boodai added that several local and international banks offered favorable terms to finance the purchase of the planes.

4. (U) Jazeera Airways is expected to take delivery of its first two Airbus A320s in October, about a week before the first scheduled flight, Boodai said. JA has contracted with Airbus for four A320s with an options for four additional aircraft. He added that it is expected that JA will exercise the option and take possession of all eight aircraft by 2008.

5. (U) When asked if Jazeera had considered purchasing Boeing aircraft, Boodai expressed some dissatisfaction and frustration with the Boeing sales department. According to Boodai, Airbus was timely in contacting JA once it was publicly known that the new airline would be purchasing aircraft. However, Boodai continued, Jazeera had to call Boeing to find out if they were interested in submitting a bid for the aircraft sales. In Boodai's opinion, Boeing seemed "indifferent" to working with Jazeera and Boeing seemed to "take it for granted" that they would win the contract because of the close relationship between Kuwait and the United States. Boodai added that Boeing only became engaged in the sales process when JA indicated that they were leaning towards Airbus. Boodai claimed that he would have preferred to purchase Boeing airplanes but that Boeing was unwilling to negotiate on the terms of the purchase contract.

6. (U) Boodai went on to say that other U.S. companies are being used to provide some products and services to the new airline. Jazeera is out-sourcing many of its services, including reservations, ground-handling, and the customer service call center, in an effort to keep down costs and provide a solid investment to shareholders, according to Boodai. He added that Jazeera Airways has only 40 employees, excluding pilots and crew, compared to the 5000 employees that Kuwait Airways employs.

Kuwait Airways Moves Toward Privatization

7. (U) On May 1, 2005, the Arab Times reported that Kuwait Airways Chairman Shaykh Talal Al-Sabah had announced that the draft bill transferring KA into a commercial entity is expected to be approved soon. Al-Sabah said that indications point to the government approving a 240 million KD budget for restructuring, updating KA's aircraft fleet and implementing mechanisms to change KA into a for-profit government-owned company. According to an earlier meeting with the chairman (Ref A), this is the first step towards privatizing Kuwait Airways.

8. (U) In a bit of irony, the article reports that Al-Sabah

said that the hike in oil prices has become a burden for KA and that a reduction in airfares is not possible so long as oil prices remain high. However, early retirement for some employees is being considered as a way to help KA cut costs, he said.

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